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DIRECT TESTIMONY

OF

ZACHARY D. LONG

ON BEHALF OF

DOMINION ENERGY SOUTH CAROLINA

DOCKET NO. 2020-125-E

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Zachary D. Long. My business address is 120 Tredegar St, Richmond, Virginia 23219.

Q. WHO EMPLOYS YOU AND IN WHAT CAPACITY?

A. My title is Senior Strategic Advisor for Financial and Business Services and Mergers and Acquisitions with Dominion Energy Services, Inc. ("DES").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a bachelor's degree in Business Administration from the University of Richmond in 2005, after which I joined Dominion Energy, Inc. ("Dominion Energy") as an associate financial analyst. Subsequently I have held a variety of roles in Planning & Budgeting, Investor Relations, and Financial Analysis/M&A. I assisted with the company's integration of Questar Corp. in 2016-2017. I assumed my current role in September of 2018.

Q. PLEASE BRIEFLY SUMMARIZE YOUR DUTIES WITH DOMINION ENERGY SERVICES.

A. My duties include identifying and tracking financial impacts related to the SCANA merger, and assisting in strategic planning for integration activities, such as the PeopleSoft-to-SAP conversion and the transfer of service company functions.

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Q. HAVE YOU PRESENTED TESTIMONY TO THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA ("COMMISSION") BEFORE?

A. I have not testified before this Commission. In previous roles, I have sponsored numerous interrogatory responses in public utility rate proceedings, and I have presented materials to PSC staff in Virginia, Utah, and Wyoming regarding service company costs.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. My testimony will establish the synergies related to the merger of Dominion Energy and SCANA Corporation and will further discuss the timeline for realizing those synergies.

Q. CAN YOU DESCRIBE THE COMPANY'S APPROACH TO ACHIEVING MERGER SYNERGIES?

A. After the closing of the merger in early 2019, the Integration Management Office ("IMO") began a coordinated effort to identify common corporate functions, introduce new colleagues across those functions, and compare the ways in which they do business. We compared organizational charts, software applications, vendor contracts, and other key measures of how each function is performed. The teams shared best practices and how to perform most effectively as an integrated team. They developed a roadmap for what would be required within each functional area, then set out to implement those plans, and those efforts continue today. Based in Cayce, the IMO is led by and mostly comprised of former SCANA employees who have institutional knowledge of the systems and processes being integrated.

Overall, Dominion Energy has taken an organic approach to achieving merger synergies, favoring long-term strategic decisions over short-term financial targets. It was recognized that some synergy opportunities would be effective immediately, while others would require much more planning and analysis, and in many cases, a fully integrated organization with integrated systems, which would not be available until 2021 or later. In the evaluation of integration projects, financial impacts were just one part of the equation, along with risk analysis, change management, and IT requirements.

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I will highlight four aspects of Dominion Energy's approach to integration:

- Achieving staffing reductions through voluntary programs whenever possible and allowing employees to apply for new opportunities within Dominion Energy.
- Maintaining employment in South Carolina. Certain service company employees will continue to be located in South Carolina but will provide support to a different or wider business mix within Dominion Energy.
- Focusing cost savings efforts on corporate and service company. There has been clear direction from company leadership to minimize impacts to utility operations.
- Fulfilling commitments made in the merger agreement, some of which could limit synergy opportunities, such as employee pay protections, or maintaining of the corporate headquarters in Cayce.

Q. WHAT IS THE TIMELINE FOR INTEGRATION OF SYSTEMS POST-MERGER?

A. The overall integration plan was based on a 24-month timeline spanning 2019 and 2020. While many individual projects have unique timelines within the Enterprise Resource Plan ("ERP") project, the most significant activities have an integration date, or "go live," of January 1, 2021. Most notable is the PeopleSoft-to-SAP conversion that integrates accounting, human resource, and purchasing within SAP.

Q. DID DESC REALIZE ANY LABOR SYNERGIES FROM THE MERGER?

A. DESC realized labor savings categorized as follows:

- **Voluntary**—As described in the Employee Matters updates provided in July 2019, January 2020, and July 2020, Dominion Energy offered two voluntary plans in early 2019: the Voluntary Separation Plan ("VSP") for certain executive administrative assistants, and the Voluntary Retirement Plan ("VRP") for eligible employees who were 55 year or older and had at least three years of service as of July 31, 2019. The employees' retirement dates range from mid-2019 to mid-2021.

Based on operational needs, approximately 20% of the applicable VRP positions were determined to require backfill. The voluntary plans result in approximately $35M in annualized savings to DESC Electric in salaries and other labor-related costs, of which approximately $25M is attributed to O&M.

- **Executive Retirements**—After the closing of the merger, and as of August 1, 2020, 12 officers have announced their retirement, resulting in approximately $4.5M in O&M savings to DESC Electric in salaries and other labor-related costs.
- **Transition of Long-Term Incentive Plans**—The transition of long-term incentives represents approximately $3.2M in O&M savings to DESC Electric. This figure includes executive retirements, VRP participants, and the transition of remaining executive and non-executive employees from SCANA long-term incentive plans to Dominion Energy long-term incentive plans.
- **Involuntary**—As a result of the merger, 21 positions were eliminated through involuntary separations. The resulting savings total approximately $1.9M in annualized savings to DESC Electric in salaries and other labor-related costs, of which approximately $1.9M can be attributed to O&M.
- **Early Transfers**—As mentioned previously, maintaining employment in South Carolina has been a key consideration during the integration. As of March 1, 2020, 73 employees (59 DESS and 14 DESC) were transferred to DES ahead of the planned transition to provide them with new opportunities and allow them to provide services to other subsidiaries. Early transfers resulted in $6.3M in DESC electric O&M shifting to DES, of which only $1.3M came back into cost of service through allocations, included within the DES proforma adjustment. The net result is a savings of $5.0M.
- **Labor Utilization**— Dozens of DESS employees have contributed to the PeopleSoft-to-SAP conversion, coordination of change initiatives, and other efforts related to or made possible by the merger, none of which are included in DESC Electric cost of service. The labor support for these shareholder-funded projects

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totals approximately $2.9M in O&M previously incurred by DESC Electric, based on the labor proforma adjustment.

Q. WAS DESC ABLE TO REALIZE ANY CORPORATE SYNERGIES FROM THE MERGER?

A. Yes. In addition to the labor synergies already discussed, DESC has achieved corporate non-labor synergies during the integration period, the most significant of which are outlined below. All figures are pre-tax O&M and represent only the portion allocated to DESC Electric, which was approximately 64% of the gross pre-allocated expense based on the 2019 modified three-factor method.

- **Insurance**—The cancellation of SCANA's legacy insurance plans and inclusion of DESC in DE's insurance plans resulted in $7.1M in net savings, attributable to economies of scale and diversification of risk.
- **Board of Directors**—The elimination of the SCANA board of directors produced $2.9M in savings.
- **Credit Facility Fees**—The termination of the SCANA and SCE&G credit facilities, and replacement with an allocated portion of a DEI credit facility, resulted in $2.8M in net savings.
- **Aviation**—Dominion Energy determined that the DES aviation department based in Richmond would be adequate to serve the needs of DESC. The SCANA aviation department was closed, the aircraft leases were terminated, and the hangar was sold to allow $2.5 million in savings.
- **Audit Fees**—Lower external audit fees resulted in $0.8M in savings.
- **Miscellaneous synergy savings**—DESC also realized synergies in other areas separate from the categories already discussed. Those synergies combined to produce $1.9M in savings, comprised of miscellaneous reductions within Treasury, IT, Shareholder Services, Investor Relations, Financial Planning, Facilities, and other administrative departments.

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Q. WAS DESC ABLE TO REALIZE ANY NUCLEAR FLEET SYNERGIES FROM THE MERGER?

A. Yes. While the nuclear integration effort is ongoing, certain organizational design changes have occurred, and the VRP program has driven a significant reduction in headcount. Labor savings at V.C. Summer are captured within the labor savings categories outlined earlier in my testimony. In regards to outage costs, while DESC is requesting an increase in the outage accrual, that increase can be attributed to a prior period balance on outages that occurred prior to the merger. Going forward for Refueling outage numbers 26-30, expected synergies have lowered outage expense by $2.2M per year, or $1.5M at ownership, driven by shortened outage duration, reductions in contract labor and materials, and utilization of fleet resources. This would not account for any savings on fuel or purchased power that would be attributed to a reduction in outage days, as those savings would be included within the fuel filing.

Q. CAN YOU DESCRIBE HOW DES PROVIDES SERVICES TO DESC?

A. Shortly after the merger, and per the approved affiliate agreement, DES began billing DESC for direct labor support and for allocations related to management oversight and other services where DES replaced a service or function previously provided by SCANA Services. The allocations are based on specific billing projects that are designated to include DESC. During the integration period, and while many systems and processes are still separate, DESC has not been included in general DES enterprise allocations. The DES bill has increased in phases since early 2019, as employees have transferred into DES and organizational designs have progressed. For this reason, the April 2020 DES bill is a more appropriate measure of DES service levels than the amounts included within the 2019 test year.

The billing from DES has never included any labor or third-party costs related to merger integration activities, as these costs have been 100% shareholder funded and reflected within Dominion Energy's corporate segment. No merger-related costs have been passed on to the DESC electric ratepayer.

Q. WHAT REQUEST DOES DESC ASK OF THE COMMISSION IN THIS PROCEEDING?

A. DESC requests that the Commission recognize that while integration continues through 2020, with the 2019 test year being the first year of a two-year integration, DESC's electric rate request reflects approximately $43M in labor synergies, $18M in corporate non-labor synergies, and $1.5M in nuclear outage synergies, for a total of $62M in savings. Certain corporate services are now provided by DES, estimated at $17M on an annual basis, resulting in a net synergy to electric ratepayers of approximately $45M.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

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